



New Jersey
State Health Benefits Program

Local Employer Group

Plan Year 2007 Rate Renewal Recommendations

January 1, 2007 – December 31, 2007

Prepared by Aon Consulting

September 2006

TABLE OF CONTENTS

<u>Section</u>	<u>Subject</u>	<u>Page</u>
Section 1	Executive Summary	1
Section 2	Historical Overview	7
Section 3	Trend Analysis	10
Section 4	Financial Projections	12
Section 5	Rate Renewal Development	16
Section 6	Premium Rates for Plan Year 2007	23
Section 7	Exhibits	24
	1 – Recommended Renewal Increases	
	2 – Enrollment Projections	
	3 – Trend Analysis	
	4 – Development of Plan Year 2007 Projected Costs	
	5 – Shock Claim Analysis	
	6 – Premium Tables for Plan Year 2007	
	7 – Assumptions for Plan Year 2007 Renewal Recommendations	

Executive Summary

The purpose of this report is to review the experience of the medical plans offered to Local Employer Active Employees and Retirees by the New Jersey State Health Benefits Program (SHBP) and recommend premium levels to support the plans for Plan Year 2007: January 1, 2007 through December 31, 2007. The experience of the State Employees and Retirees is addressed in a separate report, as is the experience of the SHBP Dental Plan.

Benefit Plans Maintained by the SHBP

The State of New Jersey operates the SHBP as a multiple-option program for Local Employer Active Employees and Retirees, with the following medical plan options (all of which are addressed in this report) available:

- Traditional Plan – A self-insured, integrated hospital/medical-surgical/major medical plan administered by Horizon Blue Cross Blue Shield of New Jersey (Horizon).
- NJ PLUS – A self-insured Point-of-Service (POS) plan administered by Horizon.
- Five HMOs, all of which will be self-insured as of 1/1/07:
 - Aetna
 - AmeriHealth
 - CIGNA
 - Health Net
 - Oxford

- Local Employer Active Employees also have a Prescription Drug Plan available under the SHBP, which is administered by Caremark, the Pharmacy Benefit Manager (PBM) used by Horizon. Local Employers may select this plan, sign up for prescription drug coverage under the medical plan, or purchase prescription drug coverage from an outside vendor.
- Retirees also have a Prescription Drug Plan, which is administered by the same health plan administrator as their medical plan.

Recommended Medical Renewal Increases

Plan Year 2005 medical claims increased at rates 1-5% lower than was assumed in last year's renewal calculations and 3-5% lower than the benchmark values from Aon's trend survey. In addition, there are some benefit changes that impact Plan Year 2007 costs (see page 3). This has led to recommended renewal increases which are lower than industry norms, as reflected below:

Increase in Plan Costs / Subscriber

	Benchmark 2005	Assumed 2005	Actual 2005	Recommended 2007 Renewal
NJ PLUS	13%	10%	8%	2%
Traditional	14%	11%	10%	5%
HMOs	13%	14%	9%	5%
Rx Card	14%	13%	11%	-8%

The table above presents the average recommended renewal increases. Recommended increases split by Education versus Local Government, by

Active, Early Retiree, and Medicare Retiree, and by specific HMOs are listed in Exhibit 1.

The recommended Plan Year 2007 renewal increases are much lower than the national norms for health insurance. The reasons for this are:

- The Actual Plan Year 2005 claim increases are less than projected at the Plan Year 2006 renewal, so current premium levels are higher than necessary to cover plan costs.
- Plan Year 2007 recommended premium rates include no margin which means a decrease from the Plan Year 2006 premiums which included a 1% margin.
- NJ PLUS and HMO office visit copays are increasing from \$5 to \$10 which is projected to reduce medical costs 2.5% in Plan Year 2007.
- Employee Prescription Drug copays are increasing from \$1 Generic and \$5 Brand for both Retail and Mail-Order to \$3 Generic and \$10 Brand for Retail and \$5 Generic and \$15 Brand for Mail-Order - which is projected to reduce prescription drug costs 14%.

The difference between the assumed cost increases and the actual cost increases can be attributed to several developments:

- NJ PLUS costs for outpatient surgery decreased from Plan Year 2004 to Plan Year 2005 as a result of the application of Reasonable and Customary limits on surgical centers, and also from increasing the number of outpatient surgical centers in Horizon's network.

- NJ PLUS introduced five new Disease Management programs effective 1/1/2005. These programs appear to have had a significant impact on trends, especially for Retirees who have a higher frequency of the type of catastrophic claims which can benefit from Disease Management.
- Prior to Plan Year 2006, the HMO rate levels were the same for State and Local Employer Groups, even though the State experience has higher average claims than the Local Employer experience. The Plan Year 2006 HMO renewals were lower for the Local Groups than for the State, but the difference was not enough to bring the Local Employer HMO rates to a break-even level. The recommended renewal increase for Plan Year 2007 is anticipated to deliver a break-even rate.
- Trends have been decreasing over the last couple of years, and for NJ PLUS and the HMOs, the industry norms for trends (as measured by the Aon Health Care Trend Survey) have decreased an additional 1% for HMOs, POS, and prescription drugs over the past year.
- For Retirees, prescription drug coverage is included with their medical plan. For NJ PLUS and Traditional Plan, the prescription drug out-of-pocket maximum was increased after the rates were finalized, resulting in additional plan savings.
- Horizon/Caremark Prescription Drug rebates have been increasing and the actual Plan Year 2005 rebates were larger than projected.

Benefit Changes

- A. Duplication of coverage under the SHBP will not be permitted in Plan Year 2007.
- B. For medical benefits, NJ PLUS and HMO physician office visit copays will increase from \$5 to \$10 effective 1/1/2007 (State Employee copays are already \$10).
- C. For prescription drugs, there are two changes:
 - 1. Effective January 1, 2007, copays for the Employee Prescription Drug Card will increase from \$1 Generic/\$5 Brand for both Retail and Mail-Order to \$3 Generic/\$10 Brand for Retail and \$5 Generic/\$15 Brand for Mail-Order, and
 - 2. Retiree copays and the out-of-pocket maximum will receive the formula increase. In addition, we are assuming that the Medicare Part D Retiree Drug Subsidy (effective January 1, 2006) will result in savings per Medicare-Eligible member of \$641 in Plan Year 2006 and \$688 in Plan Year 2007.

Since the implementation of Mandatory Generics and Mandatory Mail-Order Service has been deferred, the cost projections and rates shown in this report do not reflect any impact from Mandatory Generics or Mandatory Mail-Order Service.

Financial Results

The SHBP has continued with favorable financial results for Plan Years 2004 and 2005. Aon's current projections for Plan Year 2006 show a loss ratio of 95% for the Local Employer Group, which should result in a projected gain of \$106 million. Our projected cumulative surplus for the Local Employer Group at the end of Plan Year 2006 is \$374 million. This compares favorably to the target surplus that is two months of plan costs or \$341 million for Plan Year 2007. Since the surplus requirement is projected to be satisfied by the end of Plan Year 2006, there is no margin in the Plan Year 2007 recommended premiums and they are projected to result in neither loss nor gain for Plan Year 2007.

Historical Overview

Benefit Changes

Active and Retiree copays will increase for Plan Year 2007, but the copays are still very rich when compared to most other employers.

For Retirees enrolled in NJ PLUS and the Traditional Plan, the SHBP has increased the prescription drug copays and out-of-pocket maximums each year based on actual trends from the prior years. For Plan Year 2006, there was an additional increase for the out-of-pocket maximum bringing it to \$1,000. The cost-sharing changes for Plan Year 2007 are:

<u>Retail (30 Day Supply)</u>	<u>2006</u>	<u>2007</u>
Retail Generic Copay	\$8	\$8
Retail Preferred Brand Copay	\$16	\$17
Retail Non-Preferred Brand Copay	\$33	\$34
<u>Mail (90 Day Supply)</u>		
Mail Generic Copay	\$8	\$8
Mail Preferred Brand Copay	\$25	\$25
Mail Non-Preferred Brand Copay	\$41	\$42
Out-of-Pocket Maximum	\$1,000	\$1,082

The Retiree Rx Plan Year 2006 copay increases were anticipated in the development of Plan Year 2006 premiums. However the out-of-pocket maximum used in the renewal calculations was \$626, versus the final maximum of \$1,000. This resulted in additional savings for the Retiree

Plan, with the Plan Year 2005 Retiree claims increasing at 9%, as compared to the assumed rate of 13%.

Eligibility Changes

Effective for the Plan Year 2004, part-time employees were permitted to enroll in NJ PLUS and the Rx card plan. Only about 200 State part-timers and 100 Local part-timers are participating so the experience is not very credible. However, the combined experience of State and Local part-timers had a loss ratio of 100% for Plan Year 2005, so Aon recommends that the current rate load (10-12%) be continued for Plan Year 2007.

Enrollment Changes

Exhibit 2 reflects historical enrollment patterns among the SHBP benefit offerings during Plan Years 2002 through 2006 and includes Aon's projection of Plan Year 2007 enrollment. The Retiree projection assumes continuation of the historical patterns of the past few years into Plan Year 2007. The Active projections have been adjusted to reflect terminations that have been reported by Horizon and will be effective during the Plan Year 2006.

Aon's enrollment projections assume that Active Employee enrollment will decrease 1000 employees per month from July 2006 through June 2007, and then have no change from July 2007 through December 2007.

Aon's Retiree enrollment projections assume that Retiree enrollment will grow 5% per year for Plan Years 2006 and 2007, with the Traditional Plan losing 0.9% of its share of enrollment to NJ PLUS and the HMOs.

Demographic Changes

The SHBP Active Employee average age increased 0.3 years from first quarter 2005 to first quarter 2006:

Average Employee Age

	<u>NJ PLUS</u>	<u>Trad</u>	<u>HMOs</u>	<u>Total</u>
1Q 2005	42.1	49.8	42.5	44.6
1Q 2006	42.3	50.4	43.0	44.9
Increase	0.2	0.6	0.5	0.3

Note that Traditional Plan Employees average nearly 8 years older than NJ PLUS Employees, while the HMO Employees are very close in age to the NJ PLUS Employees. These age differences impact premiums, so that Plan Year 2007 Traditional Plan premiums are about 50% higher than NJ PLUS premiums. HMO premiums range from 5% lower than NJ PLUS to about 20% higher.

Trend Analysis

Exhibit 3 develops Aon's trend assumptions for Plan Year 2007:

- Page 1 compares the actual increase in SHBP Medical average claims from Plan Year 2004 to Plan Year 2005 with industry norms (based on Aon's Trend Survey) for the same time period. SHBP claims per subscriber increased 9% from Plan Year 2004 to Plan Year 2005, 4% lower than the industry norms,
- Page 2 compares the actual increase in SHBP Prescription Drug average claims from Plan Year 2004 to Plan Year 2005 with industry norms (based on Aon's Trend Survey) for the same time period. SHBP claims per subscriber increased 9% from Plan Year 2004 to Plan Year 2005, 5% lower than the industry norms,
- Page 3 compares Aon's recommended trend assumptions with historical SHBP trend assumptions. The largest change is in the Medicare Retiree Prescription Drug trend assumptions which are about 3% lower than last year's renewal assumptions. This reflects the favorable SHBP Rx actual claim increases, declining trends in general, and the impact of several high frequency drugs moving from brand to generic.

For the purpose of the SHBP experience trends, the experience of State Active Employees was separated from the experience of all other groups, since State Actives had benefit changes effective in Plan Year 2005 and other groups did not. The "Actual" experience in Exhibit 3 combines the

experience of State Retirees, Local Employer Retirees, and Local Employer Active Employees.

SHBP Plan Year 2005 medical trends are 3-5% lower than industry norms, and Rx trends are 5% lower. For Plan Year 2007, we assumed that trends would continue to be lower than industry norms, but decreased the differential to about 2%. In setting these trend rates, we reviewed historical experience as well as the recommendations of the SHBP vendors.

Reports from Horizon show that Local Education Group terminations in Plan Year 2006 are increasing. The most current data projects a net decrease in SHBP Local Employer enrollment of 16,000 members in the first six months of Plan Year 2006. The loss ratios of the terminating Local Employer groups are about 10% lower than the Local group as a whole. Therefore, we are including a Selection Load of 1.1% per year for Active Employees.

Financial Projections

Aggregate Financial Projections

Using the assumptions detailed in Exhibit 7 and the methodology described in Section 4 (Rate Renewal Development), we estimated costs below for Plan Years 2005, 2006 and 2007. The Plan Year 2005 and 2006 results show that premiums for all benefit plans exceed the actual costs, with total projected savings of \$123 million for Plan Year 2005 and \$106 million for Plan Year 2006. This favorable experience is reflected in the Plan Year 2007 recommended renewal increases, which are lower than trend for most plans/groups. The Plan Year 2007 projected results show that no gain or loss is expected and, since the target surplus of two months of claims is projected to be realized at the end of Plan Year 2006, the Plan Year 2007 premiums are calculated with no margin.

SHBP Plan Year Projected Financial Results (in \$ millions)

	NJ PLUS	Trad Plan	HMOs	Rx Plan	Total
Plan Year 2005					
Premium Rates x Enrollment	\$557	\$1,006	\$320	\$95	\$1,978
Incurred Claims	\$487	\$919	\$273	\$87	\$1,766
Administrative Charges	\$21	\$45	\$23	\$0	\$89
Net Gain (Loss)	\$49	\$42	\$24	\$8	\$123
Plan Year 2006					
Premium Rates x Enrollment	\$590	\$1,029	\$343	\$100	\$2,062
Incurred Claims	\$538	\$931	\$305	\$93	\$1,867
Administrative Charges	\$21	\$45	\$23	\$0	\$89
Net Gain (Loss)	\$31	\$53	\$15	\$7	\$106
Plan Year 2007					
Premium Rates x Enrollment	\$566	\$1,052	\$343	\$82	\$2,043
Incurred Claims	\$545	\$1,009	\$321	\$82	\$1,957
Administrative Charges	\$21	\$43	\$22	\$0	\$86
Net Gain (Loss)	\$0	\$0	\$0	\$0	\$0

Administrative Fees

The average change for administrative fees from Plan Year 2006 to Plan Year 2007 is a 2% decrease. This reflects decreases from Horizon for the administration of NJ PLUS and the Traditional Plan, and no change in fees for three of the five HMOs. Horizon's ASO fee reductions result in a savings of approximately \$1.3 million for the State and Local Employer Groups combined for Plan Year 2007. Oxford's renewal originally called for a 5% increase in ASO fee. However, they ultimately agreed to a 1% decrease, resulting in an estimated Plan Year 2007 savings for the State and Local Employer Groups combined of \$219,000.

For Plan Year 2007, the ASO fees per subscriber per month are:

	NJ PLUS	Trad	Aetna	CIGNA	Oxford	Ameri-Health	Health Net
PY2007	\$26.58	\$38.50	\$52.95	\$50.15	\$47.48	\$45.10	\$51.03
PY2006	\$27.58	\$39.50	\$52.95	\$50.15	\$48.00	\$42.95	\$51.03
Increase	-3.6%	-2.5%	0.0%	0.0%	-1.1%	5.0%	0.0%

The higher fees charged by the HMOs are typical of more heavily-managed plans, and more intensive claim management helps to contain claim costs. Also, NJ PLUS fees for Disease Management and Mental Health/Substance Abuse are included in the claims and capitation, while the HMO vendors include these charges in the administrative fees. The table below compares monthly costs per employee across all vendors. The medical claim costs in this table are the average cost for all active employees, both State and Local Employer. Note that when both claims and administrative charges are combined, NJ PLUS and Aetna HMO have the same cost levels, the Traditional plan costs 59% more, and the other HMOs range from 7-19% more:

Plan Year 2007 Costs per Active Employee Per Month

	NJ PLUS	Trad	Aetna	CIGNA	Oxford	Ameri-Health	Health Net
Salaries+Overhead	\$7.61	\$8.18	\$14.54	\$15.71	\$16.86	\$16.77	\$14.05
Claim Admin	\$12.60	\$13.54	\$25.16	\$17.06	\$15.57	\$12.92	\$20.90
Network Fees	\$2.95	\$10.00	\$4.50	\$5.50	\$5.30	\$8.00*	\$4.07
Disease Mgmt	\$2.98	N/A	\$4.06	\$5.38	\$5.30	\$3.80	\$4.21
Claim Mgmt	\$3.37	\$ 4.68	\$3.36	\$6.50	\$1.17	\$8.11	\$6.01
MH/SA**	\$5.21	N/A	\$1.33				
Profit	\$0	\$2.10			\$3.28	\$3.50	\$1.79
Total Fees	\$34.72	\$38.50	\$52.95	\$50.15	\$47.48	\$53.10	\$51.03
Med Clm/Ee	\$615	\$993	\$597	\$703	\$645	\$712	\$690
Total Cost	\$649	\$1,032	\$650	\$753	\$692	\$765	\$741
Ratio to NJ PLUS	1.00	1.59	1.00	1.16	1.07	1.19	1.14

*Note that AmeriHealth currently credits the SHBP their plan-wide discounts on claims. In order to receive actual discounts, AmeriHealth adds an \$8 per employee per month network fee. Currently, AmeriHealth applies plan-wide discounts for the SHBP and does not charge the \$8.00 network fee. The recommended renewal increase assumes plan-wide discounts and that no network fee will apply in Plan Year 2007. AmeriHealth has not been able to provide the SHBP with a repricing of claims using actual discounts versus plan-wide discounts, so that it can be determined which pricing protocol would be more advantageous to the SHBP. We recommend that this discount comparison be a requirement for AmeriHealth's renewal in Plan Year 2008.

**AmeriHealth's MH/SA fees are included in capitation, which is a claim charge. Several other vendors use the same approach.

Mental Health /Substance Abuse

Mental Health/Substance Abuse (MH/SA) is capitated under some of the SHBP vendors and self-insured under others, and several vendors are changing the funding arrangements:

- NJ PLUS capitation charges have exceeded actual claim experience for several years. For Plan Year 2006, Horizon/Magellan agreed to a risk-share arrangement which shares the savings with the SHBP if actual claims are lower than the capitation (\$26.99 PEPM), but does not charge the SHBP if claims exceed the capitation. For Plan Year 2007, Horizon is increasing the MH/SA capitation 3.4%. They are willing to continue the risk-share arrangement, but only if the SHBP agrees to share the risk in both directions. The renewal rates were calculated assuming that the SHBP discontinue the risk share for Plan Year 2007, but continue to work with Horizon/Magellan to monitor and control some of the excessive charges that have occurred for outpatient out-of-area services.
- Aetna changed from capitation to discounted fee for service effective 1/1/2006.
- CIGNA has proposed moving from capitation to discounted fee for service for Plan Year 2007, and Aon recommends that the SHBP make this change. It reduces the required renewal increase 1.7%, and should save the SHBP about \$2 million. The Plan Year 2007 CIGNA recommended renewal increase assumes that this change will be approved.

Rate Renewal Development

Rating Methodology

Exhibit 4 shows the development of the projected costs for Plan Year 2007 and the required renewal increases, separately for NJ PLUS, the Traditional Plan, and Prescription Drugs. Costs were projected separately for medical claims, Rx claims, administrative costs, and aggregate premiums. The projection assumptions are listed in Exhibit 7.

Medical Claim Projection

- 1) Using claim data supplied by the vendors, Aon estimated completed incurred claims for Plan Year 2005 separately for each vendor, benefit plan, and each Employee/Retiree group.

Incurred claims were adjusted for the impact of large claims. In Plan Year 2005, 0.2% of SHBP members had claims in excess of \$100,000, but the cost of these large claims accounted for 15% of total medical claims. Claim amounts in excess of \$100,000 (i.e., catastrophic or shock claims) were subtracted from the aggregate claims, and pooling charges were allocated across plans. By implementing a pooling charge, we ensure that one claim does not distort the renewal for a specific plan, but that there will be sufficient dollars to cover all incurred claims. Exhibit 5 shows the impact of shock claim pooling on each benefit plan.

- 2) Capitation and the New York/Massachusetts hospital assessment charges were added to the adjusted incurred claims to arrive at Plan Year 2005 projected incurred claims.

- 3) Local Employer Education claims were reduced by the Education Surcharge of \$16.8 million in Plan Year 2005 and \$13.9 million in Plan Year 2004. This was allocated to all Active Employee plans and to Early Retirees enrolled in HMOs.
- 4) Aggregate Plan Year 2005 incurred claims were divided by Plan Year 2005 average covered subscribers to get average claims per subscriber. To get average subscribers, we used historical billing enrollment data. Before using employee counts as our cost basis, we reviewed historical enrollment patterns to see if there has been a change in the percentage of single versus family employees that might distort this analysis. We found that this percentage has changed by less than 1% over the past two years.
- 5) Claims per Subscriber were projected from Plan Year 2005 to Plan Year 2007, using the trends listed in Exhibit 3.
- 6) Plan Year 2006 projected claim costs were adjusted for the following:
 - NJ PLUS claims were increased 2.5% based on the experience of first quarter 2006.
 - CIGNA claims were increased 2.5% based on the experience of first quarter 2006.
 - Oxford claims were increased 7.4% as a result of reconciling Oxford's renewal exhibit with Oxford submitted claim data.
- 7) Aggregate Plan Year 2007 claims are the product of the projected enrollment and the projected Plan Year 2007 claims per subscriber.

Prescription Drug Claim Projection

- 1) Since prescription drugs have less than one month of claim lag, we were able to use actual incurred prescription drug claims for Plan Year 2005.
- 2) Prescription drug claims were adjusted for projected manufacturers' rebates. The table below shows the percentage of manufacturer's rebates which are credited to the SHBP by each vendor, as well as the impact the credited rebates have on prescription drug claims.

	<u>% Rebates to SHBP</u>	<u>Rebates/ Rx Claims</u>
Horizon	82%*	5.2%
Aetna	70%	6.7%
CIGNA	100%	4.3%
Oxford	80%	3.3%
AmeriHealth	100%	4.0%
Health Net	100%	2.0%**

* This is the net result of 95% rebate reduced by \$0.65 per claim administrative fee.

** Aon estimate.

- 3) Aggregate Plan Year 2005 prescription drug claims were divided by Plan Year 2005 average enrollment to get average claims per subscriber.

- 4) Average claims per subscriber were projected from Plan Year 2005 to Plan Year 2007 using the trends listed in Exhibit 3.
- 5) Plan Year 2006 projected claim costs were adjusted for the following:
 - Local Group Employee Rx Card claims were increased 3.7% based on the experience of first quarter 2006.
 - CIGNA claims were increased 7.5% based on the experience of first quarter 2006.
- 6) Aggregate Plan Year 2007 claims are the product of the projected Plan Year 2007 average enrollment and the projected Plan Year 2007 claims per subscriber.

Administrative Cost Projection

The administrative cost projection includes the vendors' administrative charges, as well as some miscellaneous cost items:

- 1) Administrative fees charged by each vendor for each Plan Year are multiplied by the average enrollment for that vendor in each Plan Year.
- 2) Plan Year 2005 overhead charges are the SHBP administrative costs charged against the plans. For Plan Year 2005, it reflects the Local Employer charges of \$5.5 million. This is allocated across different benefit plans and different Employee/Retiree groups based on number of subscribers.

- 3) Plan Year 2005 investment income is credited against the administrative charges. For Plan Year 2005, it reflects Local Employer credits of \$14.0 million. This is allocated across different benefit plans and different Employee/Retiree groups based on aggregate medical claims.
- 4) Overhead charges and investment income for Plan Years 2006 and 2007 are the Plan Year 2005 charges per subscriber, trended at 3% per year.

Projected Premiums

- 1) Projected enrollment was applied to the actual premium tables for Plan Years 2005 and 2006 to develop the anticipated gain or loss in each of those years.
- 2) Plan Year 2007 projected enrollment was applied to Plan Year 2006 premiums. These aggregate premiums were compared to Plan Year 2007 projected costs to calculate the projected required premium increase for Plan Year 2007.

Coverage of Adult Children Under Age 30

Effective 1/1/2007, adult children under age 30 may enroll with the SHBP for medical and prescription drug coverage. The premium for this coverage is the Active Employee rate increased 10%, as detailed later in Exhibit 7.

Required Premium Increase

- 1) Plan Year 2007 aggregate costs were calculated by summing projected costs for medical claims, prescription drug claims, and administrative charges.
- 2) The ratio of Plan Year 2007 aggregate costs to Plan Year 2006 premiums applied to projected Plan Year 2007 enrollment is the measure of how much of an increase is required. A ratio of 1.00 means that no increase is required. The amount in excess of 1.00 is the percent increase required to break even in Plan Year 2007.
- 3) For NJ PLUS, the required increase was calculated separately for Active Employees, Early Retirees, and Medicare Retirees. The Active Employee increases were calculated separately for Local Education and Local Government. The Early Retiree and Medicare Retiree increases were calculated using the combined experience of Local Education and Local Government.
- 4) For the Traditional Plan, the required increase was calculated separately for Active Employees, Early Retirees, and Medicare Retirees. The Active Employee increases were calculated separately for Local Education and Local Government. The Early Retiree and Medicare Retiree increases were calculated using the combined experience of Local Education and Local Government. The actual experience called for a 3.3% increase for Early Retirees and a 2.5% decrease for Medicare Retirees. The

recommended renewal is a 0% increase for Early Retirees and a 1.1% increase for Medicare Retirees.

- 5) The Active Employee prescription drug card increase was calculated using the combined experience of Local Education and Local Government.
- 6) For each HMO, the preliminary renewal increases were calculated separately for Active Employees and Early Retirees combined (as has been done previously), then separately for Medicare Retirees. Since Medicare Retiree enrollment in HMOs is small, the experience is only partially credible. So, the recommended HMO renewal increases for Medicare Retirees is a blend of Medicare and total HMO experience. The recommended HMO renewal increases for Actives and Early Retirees were calculated so that the total premiums (including Medicare Retirees) will equal total projected costs for each HMO.

Plan Year 2007 Premium Rates

Exhibit 6 contains the premium tables for the Plan Year 2007 renewal. The premiums were calculated by applying the percentages in Exhibit 1 to the Plan Year 2006 premium tables.

SHBP Plan Year 2007 Renewal

Exhibit 1 - Recommended Renewal Increases for Local Education Groups

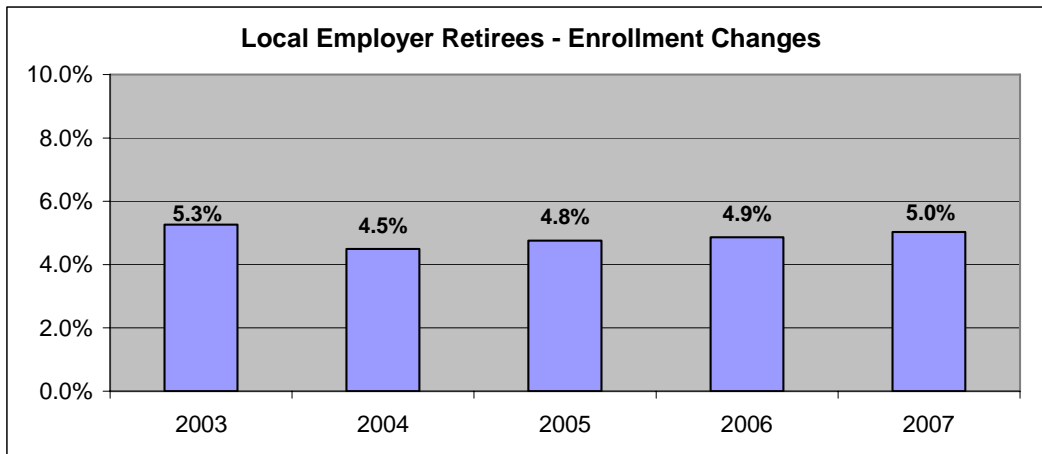
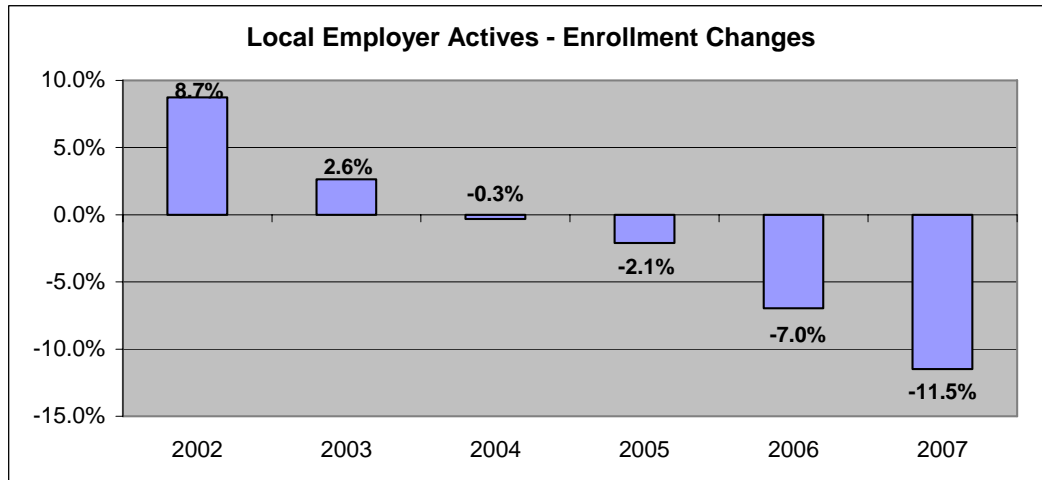
	Actives	Active with Rx Card	Active no Rx Card	Early Retirees	Medicare Retirees	Average Retiree	Actives and Retirees
Average All Plans	6.9%			-1.1%	0.8%	-0.2%	3.0%
NJ PLUS	5.1%	5.1%	5.1%	-7.2%	-0.7%	-5.1%	1.2%
Traditional	11.9%	11.9%	11.9%	0.0%	1.1%	0.5%	3.9%
Rx Card	-8.1%	-8.1%	n/a	n/a	n/a	n/a	-8.1%
Average HMO	5.8%	6.2%	5.4%	5.2%	0.4%	3.3%	5.1%
Aetna	5.9%	5.9%	5.9%	5.9%	0.0%	3.4%	4.9%
CIGNA	5.3%	5.3%	5.3%	5.3%	0.0%	3.5%	4.7%
Oxford	7.8%	7.8%	7.8%	7.8%	15.0%	10.5%	8.0%
AmeriHealth	4.6%	10.5%	0.0%	0.0%	0.0%	0.0%	4.0%
Health Net	3.9%	3.9%	3.9%	3.9%	0.0%	2.1%	3.7%

SHBP Plan Year 2007 Renewal

Exhibit 1 - Recommended Renewal Increases for Local Government Groups

	Actives	Active with Rx Card	Active no Rx Card	Early Retirees	Medicare Retirees	Average Retiree	Actives and Retirees
Average All Plans	7.6%			-0.5%	0.8%	0.0%	5.2%
NJ PLUS	6.3%	6.3%	6.3%	-7.2%	-0.7%	-5.4%	4.1%
Traditional	17.2%	17.2%	17.2%	0.0%	1.1%	0.5%	8.7%
Rx Card	-8.1%	-8.1%	n/a	n/a	n/a	n/a	-8.1%
Average HMO	5.6%	6.1%	5.1%	5.5%	1.1%	4.5%	5.4%
Aetna	5.9%	5.9%	5.9%	5.9%	0.0%	4.6%	5.5%
CIGNA	5.3%	5.3%	5.3%	5.3%	0.0%	4.2%	5.0%
Oxford	7.8%	7.8%	7.8%	7.8%	15.0%	9.1%	8.1%
AmeriHealth	5.5%	10.5%	0.0%	0.0%	0.0%	0.0%	5.3%
Health Net	3.9%	3.9%	3.9%	3.9%	0.0%	3.2%	3.8%

SHBP Plan Year 2007 Renewal
Exhibit 2 - Enrollment Projections



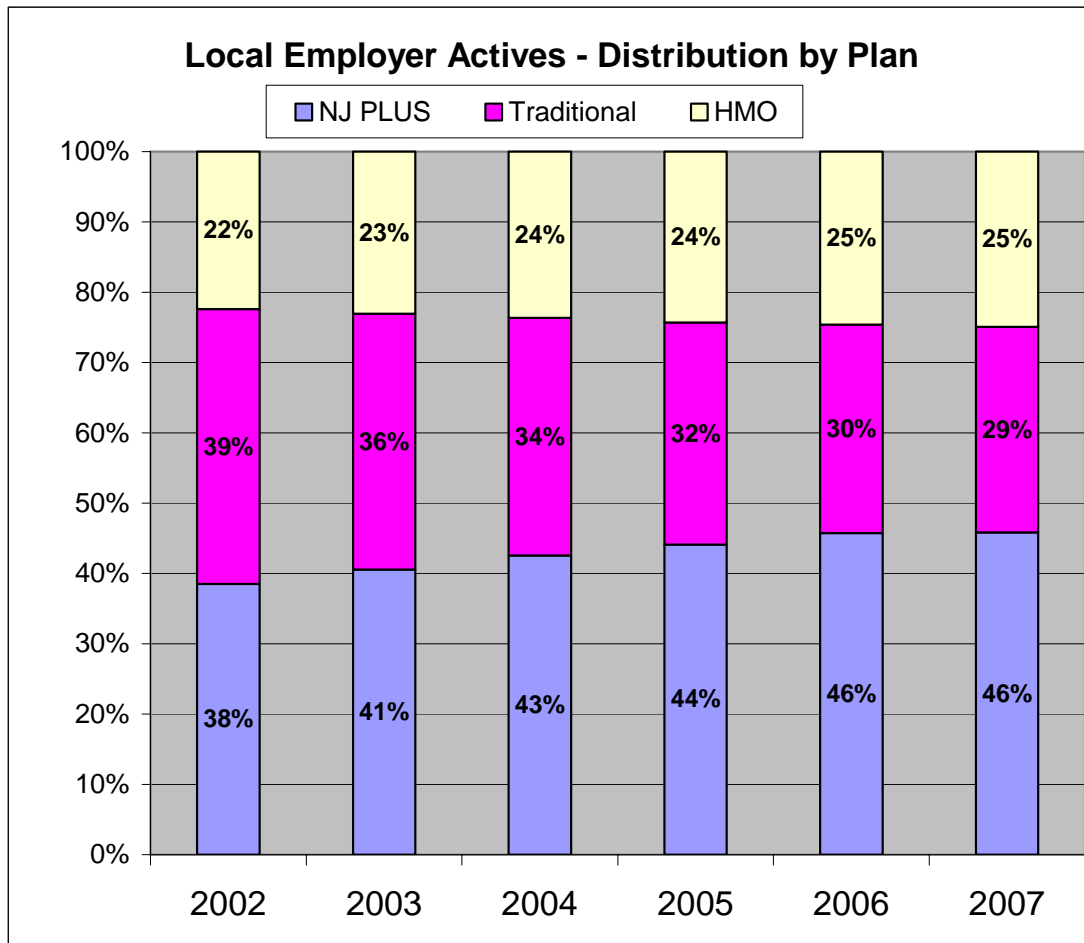
Observations (1) Total Active enrollment decreased about 2% in Plan Year 2005. In Plan Year 2006, enrollment has decreased 16,000 members in the first six months.
 (2) Total Retiree enrollment is increasing about 3-4% per year.

Assumptions for Plan Year 2007 Covered Enrollment Change

Actives*	-11.5%
Retirees	5.0%

*This assumes that enrollment will drop at about 1,000 employees per month from July 2006 through June 2007, with no change thereafter.

SHBP Plan Year 2007 Renewal
Exhibit 2 - Enrollment Projections

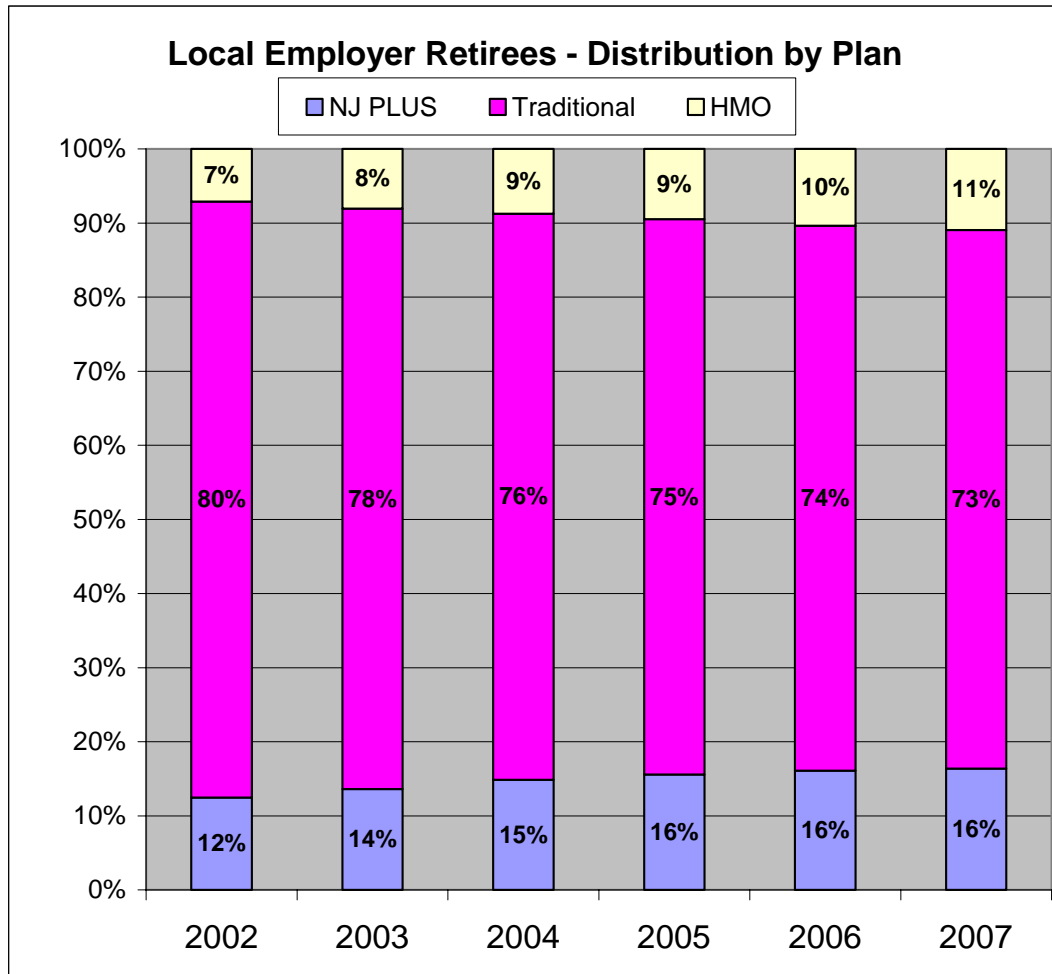


Observation: (1) NJ PLUS share of enrollment did not change in 2006, although it has increased in prior years.
 (2) HMOs are increasing their share of enrollment by about 0.5% per year.
 (2) The Traditional Plan is losing 1-2% of its enrollment share per year.

Assumptions for Plan Year 2007 Enrollment Distribution

NJ PLUS	0.1%
Traditional	-0.4%
HMOs	0.3%

SHBP Plan Year 2007 Renewal
Exhibit 2 - Enrollment Projections

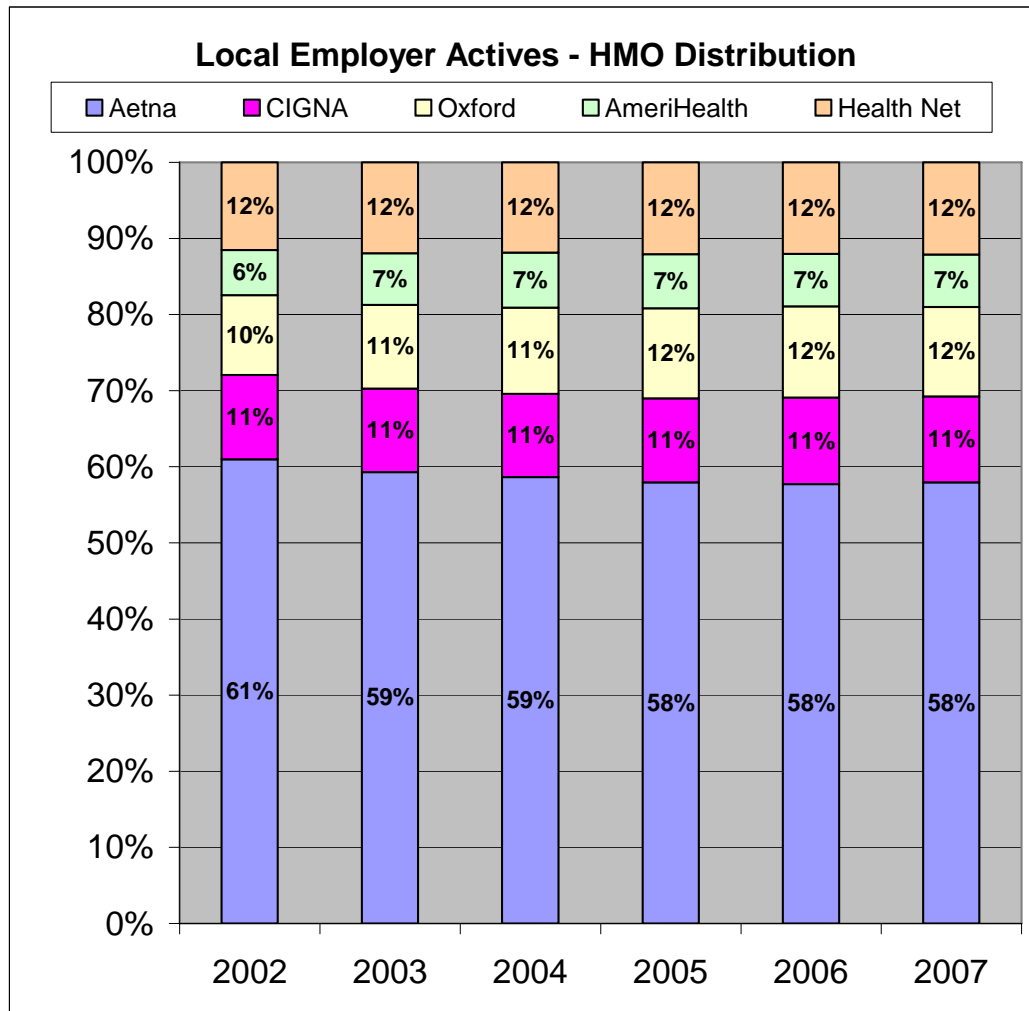


Observation: (1) NJ PLUS and the HMOs each increase their share of covered employees about 0.5% per year.
 (2) The Traditional Plan is losing about 1% of its enrollment share per year.

Assumptions for Plan Year 2007 Enrollment Distribution

NJ PLUS	0.3%
Traditional	-0.9%
HMOs	0.6%

SHBP Plan Year 2007 Renewal
Exhibit 2 - Enrollment Projections

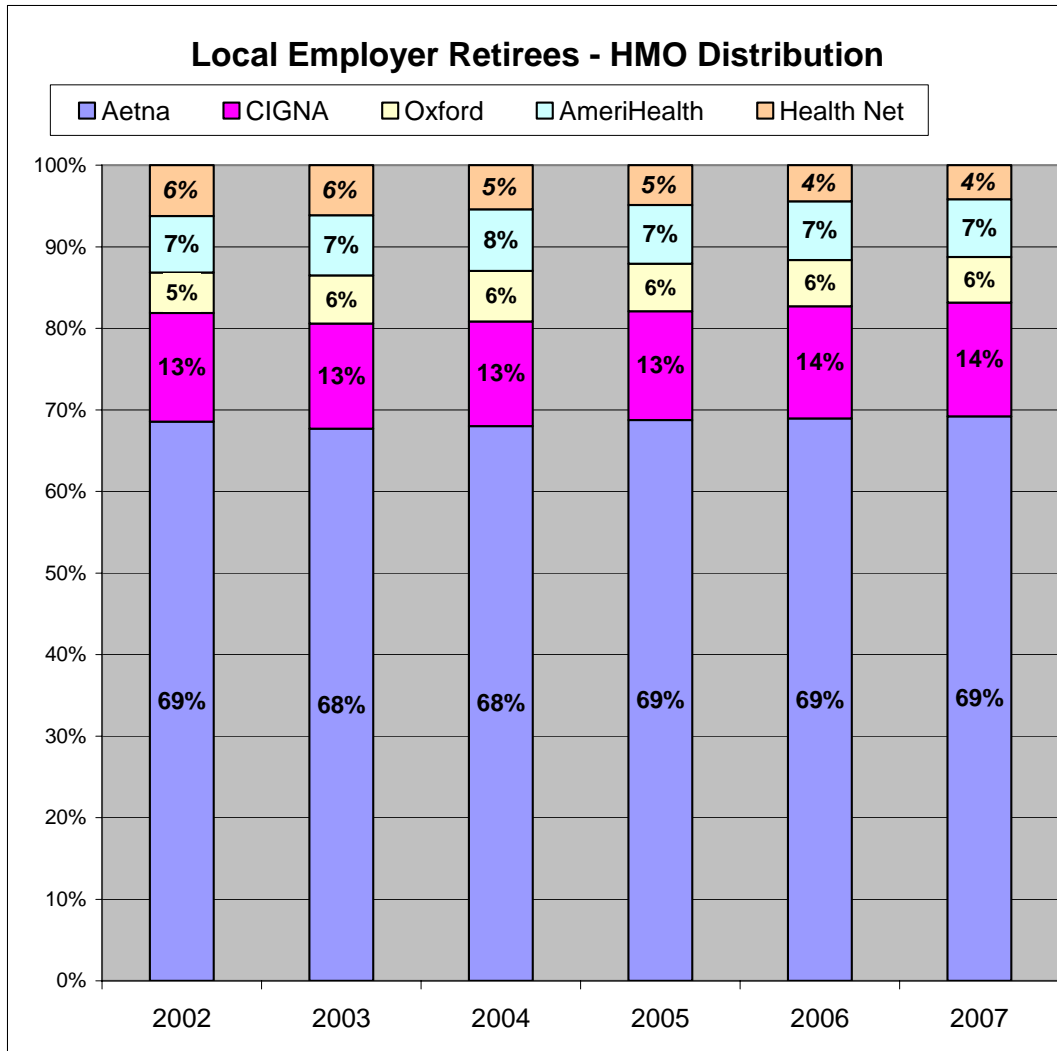


Observation: Distribution among the HMO plans shows minimal changes from one year to the next.

Assumptions for Plan Year 2007 Enrollment Distribution by HMO

No Change

SHBP Plan Year 2007 Renewal
Exhibit 2 - Enrollment Projections



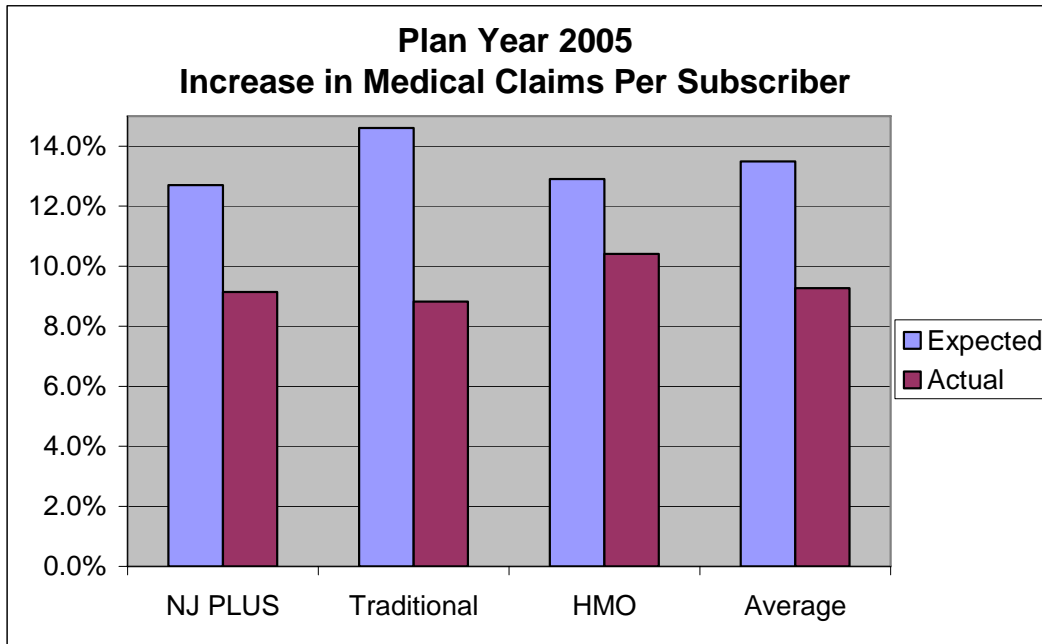
Observation: Distribution among the HMO plans shows minimal changes from one year to the next.

Assumptions for Plan Year 2007 Enrollment Distribution by HMO

No Change

SHBP Plan Year 2007 Renewal

Exhibit 3 - SHBP Trend Analysis



Expected increases are based on the Spring 2005 Aon Trend Survey.

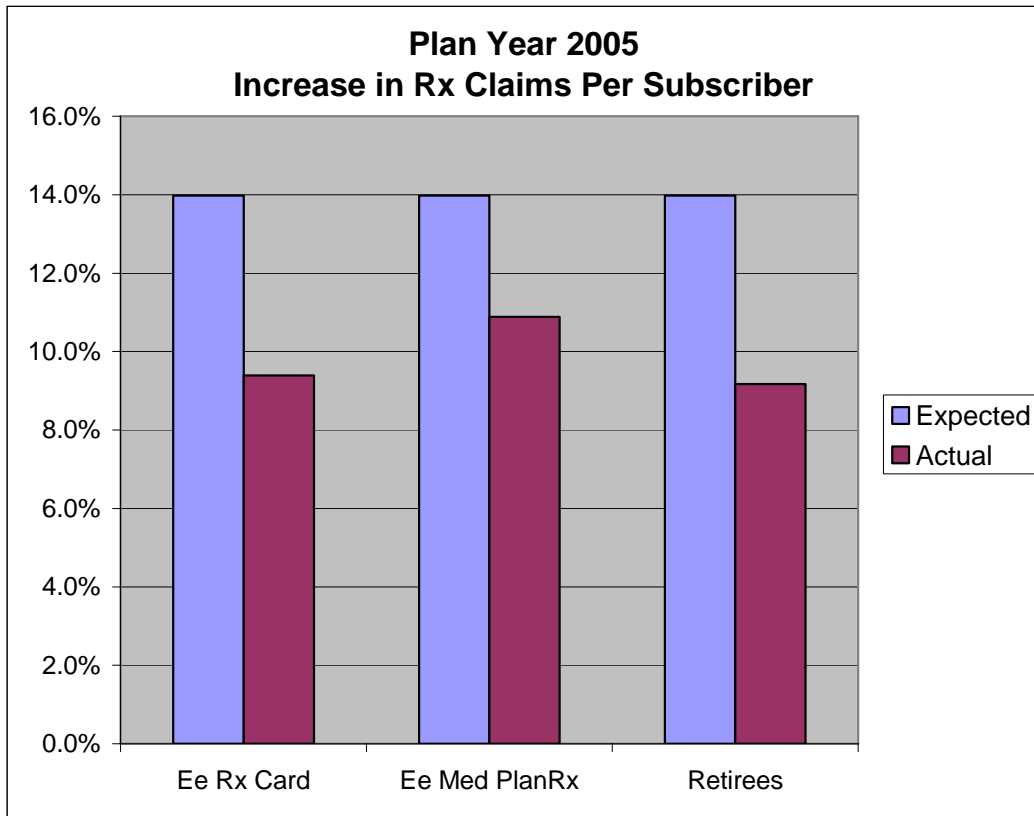
Actual increases reflect the combined experience of Local Employer Employees and all Retirees, since these groups had no change in plan design between Plan Years 2004 and 2005.

Observations: Actual increases average 4% lower than Expected, with Traditional showing the largest differential from Expected and HMOs showing the smallest.

Assumptions

- (1) SHBP trend assumptions will be lower than the industry norms.
- (2) Traditional and HMO trend assumptions will be 1.5% higher than the NJ PLUS assumption.

SHBP Plan Year 2007 Renewal
Exhibit 3 - SHBP Trend Analysis



Observations:

- (1) Actual increases are 3-5% lower than expected.
- (2) Trend for Rx covered under the medical plan is about 1.5% higher than Rx Card trend.
- (3) Retiree Rx trends are about the same as Active trends, even though the Retirees had an increase in copays and OOP which should have reduced trends about 3%.

Assumptions

- (1) Rx Card trends will be lower than the Aon Survey.
- (2) Retiree Rx trends will be 3% higher than Employee Rx before benefit adjustments, 1% higher after benefit adjustments (2007 copay/OOP increases are small than 2006 increases).
- (3) Rx paid under the medical plan will be 1.5% higher than Rx Card trend.

SHBP Plan Year 2007 Renewal

Exhibit 3 - SHBP Trend Analysis

Comparison of Plan Year 2007 Renewal Trend with Prior Years

	NJSHBP Renewal Trends				Trend Change		
	2007	2006	2005	2004	2007	2006	2005
NJ PLUS							
Medical Trends							
Active	9.5%	10.1%	11.0%	11.0%	-0.6%	-0.9%	0.0%
Early Retirees	9.5%	10.1%	11.0%	11.0%	-0.6%	-0.9%	0.0%
Medicare Retirees	9.5%	10.1%	11.0%	11.0%	-0.6%	-0.9%	0.0%
Prescription Drug Trends							
Active	11.3%	13.3%	16.0%	17.0%	-2.0%	-2.7%	-1.0%
Early Retirees	12.0%	11.0%	22.0%	25.0%	1.0%	-11.0%	-3.0%
Medicare Retirees	12.0%	14.7%	22.0%	25.0%	-2.7%	-7.3%	-3.0%
Blended Trends							
Active	10.0%	10.9%	12.3%	12.5%	-0.9%	-1.4%	-0.3%
Early Retirees	10.1%	10.3%	13.8%	14.5%	-0.2%	-3.4%	-0.8%
Medicare Retirees	10.8%	12.4%	16.5%	18.0%	-1.6%	-4.1%	-1.5%
Traditional							
Medical Trends							
Active	11.0%	10.6%	10.0%	10.0%	0.4%	0.6%	0.0%
Early Retirees	11.0%	10.6%	10.0%	10.0%	0.4%	0.6%	0.0%
Medicare Retirees	11.0%	10.6%	10.0%	10.0%	0.4%	0.6%	0.0%
Prescription Drug Trends							
Active	11.3%	13.3%	16.0%	17.0%	-2.0%	-2.7%	-1.0%
Early Retirees	12.0%	11.0%	22.0%	25.0%	1.0%	-11.0%	-3.0%
Medicare Retirees	12.0%	14.7%	22.0%	25.0%	-2.7%	-7.3%	-3.0%
Blended Trends							
Active	11.1%	11.3%	11.5%	11.8%	-0.2%	-0.2%	-0.3%
Early Retirees	11.3%	10.7%	13.0%	13.8%	0.5%	-2.3%	-0.8%
Medicare Retirees	11.5%	12.6%	16.0%	17.5%	-1.1%	-3.4%	-1.5%
HMO							
Medical Trends							
Active	11.0%	13.3%	11.0%	13.0%	-2.3%	2.3%	-2.0%
Early Retirees	11.0%	13.3%	11.0%	13.0%	-2.3%	2.3%	-2.0%
Medicare Retirees	11.0%	13.3%	11.0%	13.0%	-2.3%	2.3%	-2.0%
Prescription Drug Trends							
Active	11.3%	15.3%	18.0%	21.0%	-4.0%	-2.7%	-3.0%
Early Retirees	12.0%	13.0%	18.0%	21.0%	-1.0%	-5.0%	-3.0%
Medicare Retirees	12.0%	16.6%	20.0%	25.0%	-4.6%	-3.4%	-5.0%
Blended Trends							
Active	11.1%	13.8%	12.8%	15.0%	-2.8%	1.1%	-2.3%
Early Retirees	11.3%	13.2%	12.8%	15.0%	-2.0%	0.5%	-2.3%
Medicare Retirees	11.5%	15.0%	15.5%	19.0%	-3.5%	-0.5%	-3.5%

SHBP Plan Year 2007 Renewal
Exhibit 4 - Renewal Rate Development

Local Actives	Total	NJ PLUS Actives		Traditional Actives		Actives* Rx Plan
		Education	Government	Education	Government	
Average Medical Subscribers						
CY2005		35,043	22,634	28,809	12,509	36,705
CY2006		33,120	22,519	24,745	11,310	34,429
CY2007		28,003	21,361	20,801	10,685	30,929
Incurred Medical claims						
CY2005	\$ 734,700,000	\$ 199,700,000	\$ 155,900,000	\$ 254,100,000	\$ 125,000,000	\$ -
CY2006	\$ 760,700,000	\$ 213,700,000	\$ 175,600,000	\$ 244,600,000	\$ 126,800,000	\$ -
CY2007	\$ 740,600,000	\$ 195,400,000	\$ 180,200,000	\$ 230,500,000	\$ 134,500,000	\$ -
Incurred Prescription Drug Claims						
CY2005	\$ 120,200,000	\$ 9,900,000	\$ 4,700,000	\$ 14,500,000	\$ 4,300,000	\$ 86,800,000
CY2006	\$ 127,100,000	\$ 10,700,000	\$ 5,500,000	\$ 13,600,000	\$ 4,400,000	\$ 92,900,000
CY2007	\$ 116,100,000	\$ 10,400,000	\$ 6,000,000	\$ 12,700,000	\$ 4,700,000	\$ 82,300,000
Administrative Fees						
CY2005	\$ 33,100,000	\$ 10,400,000	\$ 6,500,000	\$ 11,400,000	\$ 4,800,000	\$ -
CY2006	\$ 30,800,000	\$ 9,800,000	\$ 6,400,000	\$ 10,100,000	\$ 4,500,000	\$ -
CY2007	\$ 28,000,000	\$ 9,100,000	\$ 6,600,000	\$ 8,200,000	\$ 4,100,000	\$ -
Total Cost = Medical Claims + Prescription Drug Claims + Fees						
CY2005	\$ 888,000,000	\$ 220,000,000	\$ 167,100,000	\$ 280,000,000	\$ 134,100,000	\$ 86,800,000
CY2006	\$ 918,600,000	\$ 234,200,000	\$ 187,500,000	\$ 268,300,000	\$ 135,700,000	\$ 92,900,000
CY2007	\$ 884,700,000	\$ 214,900,000	\$ 192,800,000	\$ 251,400,000	\$ 143,300,000	\$ 82,300,000
Total Premium						
CY2005	\$ 910,800,000	\$ 240,800,000	\$ 176,200,000	\$ 268,800,000	\$ 129,900,000	\$ 95,100,000
CY2006	\$ 929,700,000	\$ 241,900,000	\$ 191,100,000	\$ 267,600,000	\$ 129,400,000	\$ 99,700,000
CY2007	\$ 884,700,000	\$ 214,900,000	\$ 192,800,000	\$ 251,400,000	\$ 143,300,000	\$ 82,300,000
Gain (Loss)						
CY2005	\$ 22,800,000	\$ 20,800,000	\$ 9,100,000	\$ (11,200,000)	\$ (4,200,000)	\$ 8,300,000
CY2006	\$ 11,100,000	\$ 7,700,000	\$ 3,600,000	\$ (700,000)	\$ (6,300,000)	\$ 6,800,000
CY2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan Year 2007 Renewal Increase	7.6%					
No Prescription Drug Plan		5.1%	6.3%	11.9%	17.2%	
With Prescription Drug Plan		5.1%	6.3%	11.9%	17.2%	-8.1%

*Includes Active Employees from NJ PLUS, Traditional, and HMOs enrolled in the Prescription Drug Plan.

SHBP Plan Year 2007 Renewal
Exhibit 4 - Renewal Rate Development

Local Retirees	Early Retirees				
	Total	NJ PLUS Retirees		Traditional Retirees	
		Education	Government	Education	Government
Average Medical Subscribers					
CY2005	26,092	5,101	1,971	15,451	3,569
CY2006	27,056	5,541	2,030	15,998	3,487
CY2007	28,162	5,944	2,059	16,734	3,425
Incurred Medical claims					
CY2005	\$ 275,400,000	\$ 39,600,000	\$ 19,400,000	\$ 167,900,000	\$ 48,500,000
CY2006	\$ 316,100,000	\$ 48,200,000	\$ 22,400,000	\$ 193,000,000	\$ 52,500,000
CY2007	\$ 361,000,000	\$ 55,300,000	\$ 24,300,000	\$ 224,100,000	\$ 57,300,000
Incurred Prescription Drug Claims					
CY2005	\$ 71,200,000	\$ 12,700,000	\$ 5,800,000	\$ 41,500,000	\$ 11,200,000
CY2006	\$ 79,200,000	\$ 14,800,000	\$ 6,500,000	\$ 46,100,000	\$ 11,800,000
CY2007	\$ 92,300,000	\$ 17,900,000	\$ 7,300,000	\$ 54,100,000	\$ 13,000,000
Administrative Fees					
CY2005	\$ 8,900,000	\$ 1,400,000	\$ 500,000	\$ 5,800,000	\$ 1,200,000
CY2006	\$ 9,300,000	\$ 1,500,000	\$ 500,000	\$ 6,100,000	\$ 1,200,000
CY2007	\$ 9,800,000	\$ 1,800,000	\$ 600,000	\$ 6,200,000	\$ 1,200,000
Total Cost = Medical Claims + Prescription Drug Claims + Fees					
CY2005	\$ 355,500,000	\$ 53,700,000	\$ 25,700,000	\$ 215,200,000	\$ 60,900,000
CY2006	\$ 404,600,000	\$ 64,500,000	\$ 29,400,000	\$ 245,200,000	\$ 65,500,000
CY2007	\$ 463,100,000	\$ 75,000,000	\$ 32,200,000	\$ 284,400,000	\$ 71,500,000
Total Premium					
CY2005	\$ 396,900,000	\$ 67,600,000	\$ 27,200,000	\$ 233,700,000	\$ 68,400,000
CY2006	\$ 442,900,000	\$ 79,000,000	\$ 30,200,000	\$ 261,300,000	\$ 72,400,000
CY2007	\$ 451,800,000	\$ 78,900,000	\$ 28,400,000	\$ 273,400,000	\$ 71,100,000
Gain (Loss)					
CY2005	\$ 41,400,000	\$ 13,900,000	\$ 1,500,000	\$ 18,500,000	\$ 7,500,000
CY2006	\$ 38,300,000	\$ 14,500,000	\$ 800,000	\$ 16,100,000	\$ 6,900,000
CY2007	\$ (11,300,000)	\$ 3,900,000	\$ (3,800,000)	\$ (11,000,000)	\$ (400,000)
Plan Year 2007 Renewal Increase	-1.8%	-7.2%	-7.2%	0.0%	0.0%

SHBP Plan Year 2007 Renewal
Exhibit 4 - Renewal Rate Development

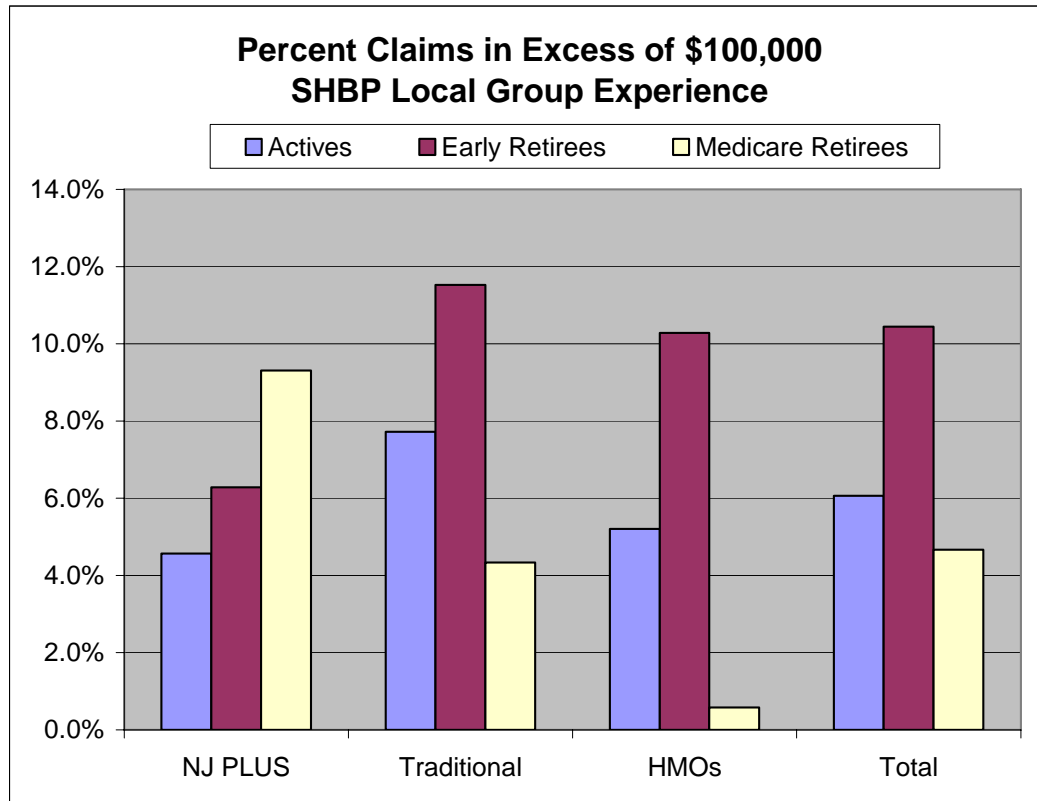
Local Retirees	Medicare Retirees				
	Total	NJ PLUS Retirees		Traditional Retirees	
		Education	Government	Education	Government
Average Medical Subscribers					
CY2005	52,411	4,681	1,734	36,782	9,214
CY2006	54,452	5,261	1,807	38,401	8,983
CY2007	56,895	5,788	1,857	40,443	8,807
Incurred Medical claims					
CY2005	\$ 105,700,000	\$ 10,900,000	\$ 4,500,000	\$ 71,000,000	\$ 19,300,000
CY2006	\$ 122,100,000	\$ 13,700,000	\$ 5,200,000	\$ 82,300,000	\$ 20,900,000
CY2007	\$ 140,900,000	\$ 16,100,000	\$ 5,800,000	\$ 96,200,000	\$ 22,800,000
Incurred Prescription Drug Claims					
CY2005	\$ 186,300,000	\$ 17,600,000	\$ 6,500,000	\$ 130,400,000	\$ 31,800,000
CY2006	\$ 156,900,000	\$ 16,000,000	\$ 5,600,000	\$ 110,000,000	\$ 25,300,000
CY2007	\$ 186,700,000	\$ 20,000,000	\$ 6,600,000	\$ 131,900,000	\$ 28,200,000
Administrative Fees					
CY2005	\$ 23,600,000	\$ 1,600,000	\$ 600,000	\$ 17,100,000	\$ 4,300,000
CY2006	\$ 25,000,000	\$ 1,700,000	\$ 600,000	\$ 18,400,000	\$ 4,300,000
CY2007	\$ 25,500,000	\$ 1,900,000	\$ 600,000	\$ 18,900,000	\$ 4,100,000
Total Cost = Medical Claims + Prescription Drug Claims + Fees					
CY2005	\$ 315,600,000	\$ 30,100,000	\$ 11,600,000	\$ 218,500,000	\$ 55,400,000
CY2006	\$ 304,000,000	\$ 31,400,000	\$ 11,400,000	\$ 210,700,000	\$ 50,500,000
CY2007	\$ 353,100,000	\$ 38,000,000	\$ 13,000,000	\$ 247,000,000	\$ 55,100,000
Total Premium					
CY2005	\$ 350,600,000	\$ 34,000,000	\$ 11,100,000	\$ 245,000,000	\$ 60,500,000
CY2006	\$ 345,700,000	\$ 36,200,000	\$ 11,200,000	\$ 241,800,000	\$ 56,500,000
CY2007	\$ 364,400,000	\$ 39,500,000	\$ 11,500,000	\$ 257,400,000	\$ 56,000,000
Gain (Loss)					
CY2005	\$ 35,000,000	\$ 3,900,000	\$ (500,000)	\$ 26,500,000	\$ 5,100,000
CY2006	\$ 41,700,000	\$ 4,800,000	\$ (200,000)	\$ 31,100,000	\$ 6,000,000
CY2007	\$ 11,300,000	\$ 1,500,000	\$ (1,500,000)	\$ 10,400,000	\$ 900,000
Plan Year 2007 Renewal Increase	0.9%	-0.7%	-0.7%	1.1%	1.1%

SHBP Plan Year 2007 Renewal
Exhibit 4 - Renewal Rate Development

Local HMO Actives + Retirees

	Total	Aetna	CIGNA	Oxford	AmeriHealth	Health Net
Average Medical Subscribers						
CY2005	39,983	24,040	4,609	4,246	2,849	4,239
CY2006	39,386	23,715	4,731	4,144	2,756	4,040
CY2007	37,284	22,780	4,485	3,743	2,591	3,685
Incurred Medical claims						
CY2005	\$ 233,700,000	\$ 129,900,000	\$ 32,700,000	\$ 24,300,000	\$ 18,900,000	\$ 27,900,000
CY2006	\$ 260,500,000	\$ 143,900,000	\$ 38,200,000	\$ 28,300,000	\$ 20,300,000	\$ 29,800,000
CY2007	\$ 269,300,000	\$ 151,900,000	\$ 38,500,000	\$ 28,100,000	\$ 20,800,000	\$ 30,000,000
Incurred Prescription Drug Claims						
CY2005	\$ 39,800,000	\$ 21,500,000	\$ 6,100,000	\$ 3,700,000	\$ 3,300,000	\$ 5,200,000
CY2006	\$ 44,400,000	\$ 23,900,000	\$ 7,300,000	\$ 4,000,000	\$ 3,700,000	\$ 5,500,000
CY2007	\$ 51,500,000	\$ 28,700,000	\$ 8,500,000	\$ 4,300,000	\$ 4,300,000	\$ 5,700,000
Administrative Fees						
CY2005	\$ 22,600,000	\$ 14,200,000	\$ 2,500,000	\$ 2,200,000	\$ 1,300,000	\$ 2,400,000
CY2006	\$ 22,700,000	\$ 14,300,000	\$ 2,600,000	\$ 2,200,000	\$ 1,300,000	\$ 2,300,000
CY2007	\$ 21,600,000	\$ 13,700,000	\$ 2,500,000	\$ 2,000,000	\$ 1,300,000	\$ 2,100,000
Total Cost = Medical Claims + Prescription Drug Claims + Fees						
CY2005	\$ 296,100,000	\$ 165,600,000	\$ 41,300,000	\$ 30,200,000	\$ 23,500,000	\$ 35,500,000
CY2006	\$ 327,600,000	\$ 182,100,000	\$ 48,100,000	\$ 34,500,000	\$ 25,300,000	\$ 37,600,000
CY2007	\$ 342,400,000	\$ 194,300,000	\$ 49,500,000	\$ 34,400,000	\$ 26,400,000	\$ 37,800,000
Total Premium						
CY2005	\$ 319,900,000	\$ 176,600,000	\$ 43,200,000	\$ 34,300,000	\$ 25,000,000	\$ 40,800,000
CY2006	\$ 342,700,000	\$ 190,900,000	\$ 49,700,000	\$ 35,300,000	\$ 26,800,000	\$ 40,000,000
CY2007	\$ 342,400,000	\$ 194,300,000	\$ 49,500,000	\$ 34,400,000	\$ 26,400,000	\$ 37,800,000
Gain (Loss)						
CY2005	\$ 23,800,000	\$ 11,000,000	\$ 1,900,000	\$ 4,100,000	\$ 1,500,000	\$ 5,300,000
CY2006	\$ 15,100,000	\$ 8,800,000	\$ 1,600,000	\$ 800,000	\$ 1,500,000	\$ 2,400,000
CY2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Plan Year 2007 Renewal Increase	5.1%					
Actives + Early Retirees with Rx Card		5.9%	5.3%	7.8%	10.5%	3.9%
Actives no Rx Card		5.9%	5.3%	7.8%	0.0%	3.9%
Medicare Retirees		0.0%	0.0%	15.0%	0.0%	0.0%

SHBP Plan Year 2007 Renewal
Exhibit 5 - Shock Claim Analysis



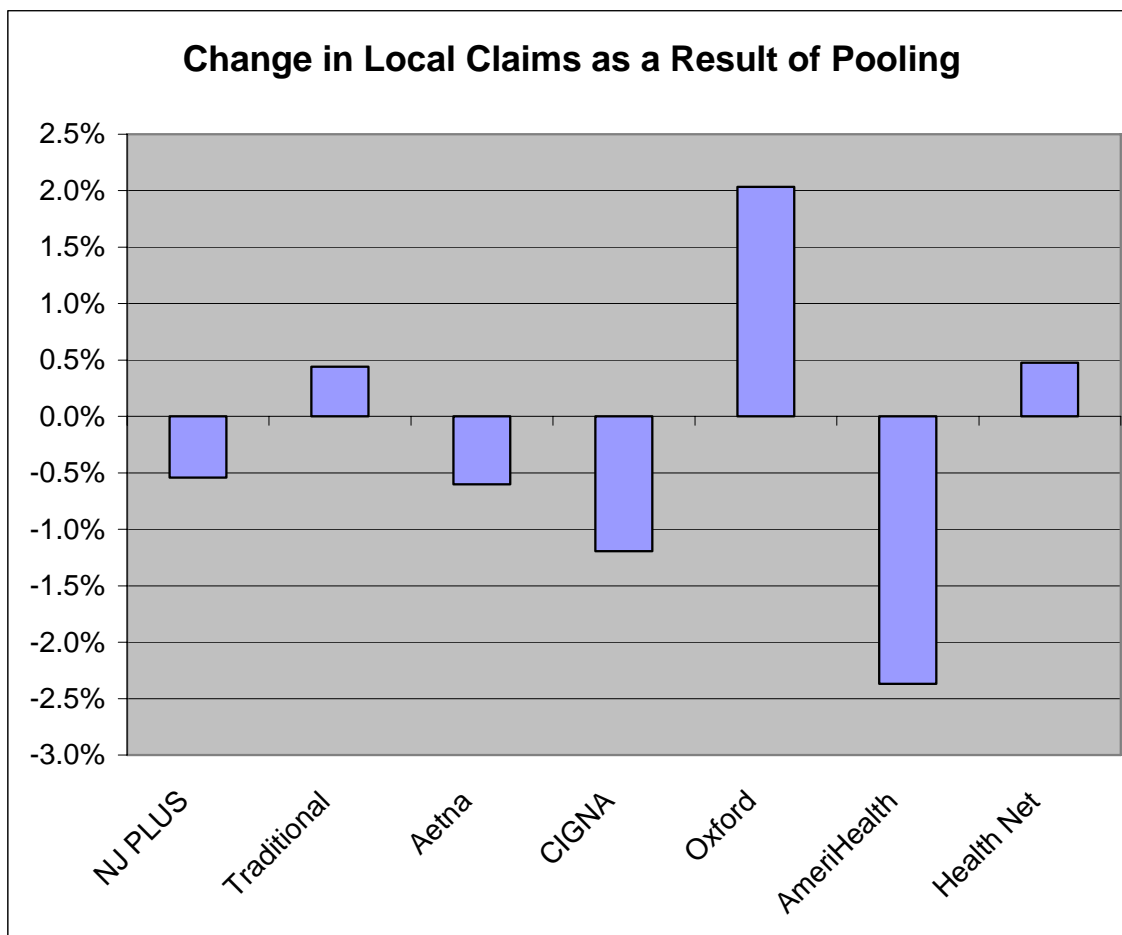
Observations:

- (1) Shock claim percentages vary based on employee status: Early Retirees have the highest percentage of shock claims and Medicare Retirees have the lowest.
- (2) For Actives, Traditional has the highest percentage of shock claims, and HMO shock claim levels are close to NJ PLUS.
- (3) For Early Retirees, NJ PLUS has the lowest level of shock claims, with HMO shock claim levels close to Traditional.
- (4) For Medicare Retirees, NJ PLUS has the highest level of shock claims.
- (5) Retiree enrollment in HMOs is small, making their experience less credible.

Assumptions:

- (1) Traditional Plan pooling charges will be double the NJ PLUS charges.
- (2) HMO pooling charges will be 25% higher than NJ PLUS charges.
- (3) Pooling charges will be different for each employee group: Actives, Early Retirees and Medicare Retirees.

SHBP Plan Year 2007 Renewal
Exhibit 5 - Shock Claim Analysis



Observations:

- (1) Pooling has a minimal impact on total NJ PLUS, Traditional, Aetna, and Health Net.
- (2) Pooling decreases CIGNA costs about 1%, AmeriHealth costs about 2%, and increases Oxford costs about 2%.

SHBP Plan Year 2007 Renewal

Exhibit 6 - Plan Year 2007 Employee Monthly Premiums

	NJ PLUS	Traditional	Aetna	CIGNA	Oxford	AmeriHealth	Health Net	Rx Card
Education - With Rx Card								
Single	\$325.54	\$508.24	\$338.57	\$409.12	\$358.73	\$394.60	\$382.08	\$120.88
Member+Spouse	\$724.51	\$1,108.44	\$747.73	\$892.41	\$789.12	\$878.01	\$832.31	\$276.33
Family	\$842.99	\$1,295.67	\$869.67	\$1,064.35	\$932.59	\$1,022.51	\$1,010.37	\$290.54
Parent+Child(ren)	\$480.69	\$741.45	\$499.93	\$614.12	\$538.11	\$582.54	\$586.12	\$161.39
Government - With Rx Card								
Single	\$377.06	\$571.97	\$338.57	\$409.12	\$358.73	\$394.60	\$382.08	\$120.88
Member+Spouse	\$839.24	\$1,247.50	\$747.73	\$892.41	\$789.12	\$878.01	\$832.31	\$276.33
Family	\$976.46	\$1,458.23	\$869.67	\$1,064.35	\$932.59	\$1,022.51	\$1,010.37	\$290.54
Parent+Child(ren)	\$556.78	\$834.50	\$499.93	\$614.12	\$538.11	\$582.54	\$586.12	\$161.39
Education - No Rx Card								
Single	\$363.33	\$607.43	\$463.25	\$536.66	\$432.26	\$509.13	\$499.91	
Member+Spouse	\$808.64	\$1,318.60	\$1,002.07	\$1,152.59	\$950.85	\$1,132.85	\$1,089.03	
Family	\$940.86	\$1,543.05	\$1,127.45	\$1,328.08	\$1,123.74	\$1,319.25	\$1,322.01	
Parent+Child(ren)	\$536.49	\$883.78	\$634.99	\$752.24	\$648.36	\$751.59	\$766.94	
Government - No Rx Card								
Single	\$424.50	\$668.37	\$463.25	\$536.66	\$432.26	\$509.13	\$499.91	
Member+Spouse	\$944.76	\$1,450.96	\$1,002.07	\$1,152.59	\$950.85	\$1,132.85	\$1,089.03	
Family	\$1,099.25	\$1,697.97	\$1,127.45	\$1,328.08	\$1,123.74	\$1,319.25	\$1,322.01	
Parent+Child(ren)	\$626.82	\$972.44	\$634.99	\$752.24	\$648.36	\$751.59	\$766.94	

SHBP Plan Year 2007 Renewal

Exhibit 6 - Plan Year 2007 Retiree Monthly Premiums

	NJ PLUS	Traditional	Aetna	CIGNA	Oxford	AmeriHealth	Health Net
Education							
Single - 0 Medicare	\$566.66	\$722.15	\$463.25	\$536.66	\$432.26	\$509.13	\$499.91
Single - 1 Medicare	\$362.52	\$361.72	\$392.72	\$411.11	\$376.87	\$411.36	\$364.27
Mem+Spouse - 0 Medicare	\$1,261.32	\$1,572.86	\$1,002.07	\$1,152.59	\$950.85	\$1,132.85	\$1,089.03
Mem+Spouse - 1 Medicare	\$929.18	\$1,083.87	\$855.97	\$947.77	\$809.13	\$920.49	\$864.18
Mem+Spouse - 2 Medicare	\$725.07	\$723.47	\$785.47	\$822.26	\$753.76	\$822.75	\$728.56
Family - 0 Medicare	\$1,467.51	\$1,839.15	\$1,127.45	\$1,328.08	\$1,123.74	\$1,319.25	\$1,322.01
Family - 1 Medicare	\$1,135.37	\$1,350.16	\$981.35	\$1,123.26	\$982.02	\$1,106.89	\$1,097.16
Family - 2 Medicare	\$931.26	\$942.48	\$928.00	\$1,007.55	\$970.29	\$1,043.34	\$950.70
Parent+Ch - 0 Medicare	\$836.76	\$1,052.72	\$634.99	\$752.24	\$648.36	\$751.59	\$766.94
Parent+Ch - 1 Medicare	\$632.62	\$656.66	\$564.46	\$626.69	\$592.97	\$653.82	\$631.30
Government							
Single - 0 Medicare	\$569.62	\$832.84	\$463.25	\$536.66	\$432.26	\$509.13	\$499.91
Single - 1 Medicare	\$366.41	\$384.08	\$392.72	\$411.11	\$376.87	\$411.36	\$364.27
Mem+Spouse - 0 Medicare	\$1,267.92	\$1,814.05	\$1,002.07	\$1,152.59	\$950.85	\$1,132.85	\$1,089.03
Mem+Spouse - 1 Medicare	\$936.03	\$1,216.92	\$855.97	\$947.77	\$809.13	\$920.49	\$864.18
Mem+Spouse - 2 Medicare	\$732.82	\$768.05	\$785.47	\$822.26	\$753.76	\$822.75	\$728.56
Family - 0 Medicare	\$1,475.19	\$2,121.19	\$1,127.45	\$1,328.08	\$1,123.74	\$1,319.25	\$1,322.01
Family - 1 Medicare	\$1,143.30	\$1,524.06	\$981.35	\$1,123.26	\$982.02	\$1,106.89	\$1,097.16
Family - 2 Medicare	\$940.09	\$1,022.12	\$928.00	\$1,007.55	\$970.29	\$1,043.34	\$950.70
Parent+Ch - 0 Medicare	\$841.13	\$1,214.17	\$634.99	\$752.24	\$648.36	\$751.59	\$766.94
Parent+Ch - 1 Medicare	\$637.92	\$717.49	\$564.46	\$626.69	\$592.97	\$653.82	\$631.30

**SHBP Plan Year 2007 Renewal
Local Employer Plan
Exhibit 7 – Projection Assumptions**

Benefit Design Changes

Medical Plans: NJ PLUS and HMO office visit copays increase from \$5 to \$10 on 1/1/2007.

Active Prescription Drug Card Plan: Employee prescription drug card copays increase from \$1 Generic/\$5 Brand for both Retail and Mail-Order to \$3 Generic/\$10 Brand for Retail and \$5 Generic/\$15 Brand for Mail-Order, effective 1/1/2007.

Retiree Prescription Drug Card Plan: The copays will increase on 1/1/2007 from \$8/\$16/\$33 Retail and \$8/\$25/\$41 Mail Order to \$8/\$17/\$34 Retail and \$8/\$25/\$42 Mail Order. In addition, the Rx maximum out of pocket limit will be increased from \$1,000 to \$1,082, effective 1/1/2007.

Vendor Changes

We are assuming that there will be no changes in any of the SHBP vendors between Plan Years 2006 and 2007. Further, we anticipate any changes in HMO service areas will have minimal impact on plan costs. All HMOs will be self-insured during Plan Year 2007.

Member Contributions

Active Plans: There will be no change to current requirements: \$0 contributions for employees. Contributions for dependents must maintain the same proportion of the cost of dependent coverage for all employees covered in the plan.

Retiree Plans: There will be no change to current requirements which include most retirees at the \$0 contribution level, but also include retirees who contribute up to 100% of their cost based on the regulations that apply to their group and retirement date.

Incurred Basis

Plan Year 2007 projected premiums will be designed to cover projected incurred costs for claims and expenses. They will not be adjusted to reflect the fact that many components may have significant lags in their payment date. For example, claim run-out can continue for more than two years, although 90% of claims are paid within 5 months of the incurral date, and premium can lag by one or two months for many Local Employers.

Margin

Projected Local Employer premiums will include NO margin, since we are projecting the cumulative surplus at the end of Plan Year 2006 will more than cover the target surplus goal of two months of plan costs.

Administrative Expenses

Plan Year 2007 costs will include projected charges for the following administrative expenses:

- ASO fees for each vendor,
- SHBP overhead expenses,
- SHBP investment income,
- Disease management fees, and
- 2% administrative load on rates for Adult Children,

Claim Costs

Plan Year 2007 costs will include projected charges/credits for the following claim expenses:

- Medical and prescription drug claims,
- Capitation charges,
- Prescription Drug rebates, and
- Board of Education surcharge credited against Local Education costs.

Enrollment Projections

Aon's enrollment projections assume that Active Employee enrollment will decrease 7% and 11.5% for Plan Years 2006 and 2007 respectively, with minimal changes in the distribution of employees by benefit plan.

Aon's Retiree enrollment projections assume that Retiree enrollment will grow 5% per year for Plan Years 2006 and 2007, with the Traditional Plan losing 1% of its share of enrollment to NJ PLUS and the HMOs.

Health Status Change

Active Plans: Reports from Horizon show that Local Education Group terminations are increasing in Plan Year 2006. The most current data projects a net decrease in SHBP Local Employer enrollment of 16,000 members in the first six months of Plan Year 2006. The loss ratio of the terminating groups is about 10% lower than the Local Employer group as a whole. Therefore, for Plan Year 2007 projections, we are including a Selection load of 1.1% per year for Active Employees.

Retiree Plans: We are assuming no change to average health status since total enrollment is growing and since most retirees do not have to contribute for their coverage.

Large Claims

Given the size of the State and Local Employer Active Employee and Retiree offerings, we expect that each of these groups is large enough to cover the cost of all their claims. However, some of the rating categories within each of these groups can be impacted by the variation in large claims from one year to the next. For this reason, we are pooling the cost of claims over \$100,000 over all the benefit offerings.

Trend Rates

Trend assumptions were developed by comparing the SHBP historical trend with industry norms and vendor recommendations. Trend assumptions for the Plan Year 2007 renewal are 9.5% for NJ PLUS, 11%

for the Traditional Plan, 11% for HMOs, 11% for the Prescription Drug Card plan, 12.5% for prescription drug coverage included with the medical plan, and 12% for Retiree Prescription Drugs.

Trend assumptions do not include any adjustment for the impact of Avian flu or any other pandemic on Plan Year 2007 costs.

Medicare Part D

We are assuming that the Medicare Part D subsidy will be worth \$641 per Medicare-Eligible member in Plan Year 2006, and \$688 per Medicare-Eligible member in Plan Year 2007.

Coverage of Adult Children Under Age 30

Expected Costs for Adult Children are based on the following assumptions:

- Health Status and Selection will be 25% higher than the COBRA experience, due to the fact that Adult Children can drop coverage and then re-enroll (which is not permitted under COBRA). Based on Plan Year 2005, COBRA loss ratios are 57% higher than Active Employees. However, COBRA average age is 34 versus an average age of 41 for Active Employees. After adjusting for the age differential, COBRA experience is 93% worse than Active Employees. Thus Adult Children experience is expected to be 142% worse than active employees (1.93×1.25).
- Adult Children enrollment will be split 50% male and 50% female.

- Maternity costs in Adult Children will be 75% of the normal maternity costs, since married children are not covered, nor are the costs of the newborn child.
- Average age of Adult Children will be 28, which reduces costs 48% relative to the average age of the active population.
- Expected claim costs for Adult Children will be the excess morbidity adjusted for the lower average age = $2.42 \times (1 - 0.48) = 1.25$.
- Administrative Costs will be higher due to maintaining records for individual enrollees, and tracking changes in enrollment, so we recommend that the Adult Child rate include the same 2% administrative load as in the COBRA rates. Thus, final Adult Child rates should be 27% higher than the SHBP rates for single coverage. However, as requested by the Division of Pensions and Benefits, a 10% load will be used for this coverage group until actual experience can be determined.

Data Assumptions

Claims: We are using data files from all vendors except AmeriHealth to develop incurred claim costs. Horizon, Aetna, CIGNA, and Health Net renewals are based on claims paid through March 31, 2006. Oxford renewals are based on claims paid through January 31, 2006. For AmeriHealth, summarized paid claims were adjusted to estimate incurred claim costs.

Enrollment: We used quarterly SHBP census files to develop splits by coverage tier, by ZIP code, and by age/sex groups for our experience analysis. We used billing counts for our exposure units in our renewal calculations.